



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

July 1, 2009

Hon. Connie Lawson, President
Board of Directors
Kentucky League of Cities, Inc
100 East Vine Street, Suite 800
Lexington, Kentucky 40507

Re: Auditor's Examination of KLC

Dear Mayor Lawson:

This letter notifies you as President of the Board of Directors (Board) of the Kentucky League of Cities (KLC) that the Auditor of Public Accounts (Auditor) will be conducting an independent examination of selected financial policies, accounts, transactions, and other activity of KLC and its affiliated funds, programs, and organizations.

Given recent news reports of certain KLC financial transactions as well as concerns brought to this office, the Auditor has a responsibility to the public to perform an independent examination of KLC to ensure that the public's money is being spent in the best interests of the taxpayers, who are ultimately responsible for funding KLC. Accountability and transparency are essential, especially during difficult economic times, to ensure that KLC's member cities are receiving the maximum benefit from KLC's expended funds.

KLC receives public taxpayer funds from dues, insurance premiums, interest on loans, and other sources, which are paid to KLC by its member cities from public funds in public accounts. Both elected and appointed public city officials, including mayors, city council members, and city managers, among others, serve on KLC's Board and govern its operations.

KLC's officers and employees participate in the County Employees Retirement System (CERS), a state-administered public retirement system for officials and employees of Kentucky's cities, counties, other local governments, and other entities. Thus, for retirement purposes, KLC officers and employees are treated as city officers and employees in this state retirement system.



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KLC's own corporate Articles of Incorporation (Articles) state in Article II, Purposes and Powers, that KLC is organized and operated "exclusively to carry out essential governmental functions" for and on behalf of its member cities. In carrying out this primary purpose of KLC, the Articles further state that "all of KLC's income shall accrue to the benefit of the city governments that become members" of KLC.

Governmental functions are carried out by governmental entities, and governmental entities are public entities. Section 91 of Kentucky's Constitution establishes the office of "Auditor of Public Accounts." As the Auditor of Public Accounts, this office has a responsibility to audit and examine entities that perform governmental functions. KRS 91A.040 authorizes the Auditor to audit and examine cities, and to review the audit documentation of certified public accounting firms that audit cities.

For the reasons cited above, among others, the Auditor has the authority and the responsibility to audit KLC.

We look forward to working cooperatively with you, the other Directors on KLC's Board, and KLC's staff as we examine KLC's polices and financial activity, and provide recommendations to improve KLC's financial controls and processes. Brian Lykins, the Auditor's Executive Director of the Office of Technology and Special Audits, will be in touch with your office soon to schedule an initial meeting.

Sincerely,

A handwritten signature in black ink, appearing to read "Crit Luallen", written over a horizontal line.

Crit Luallen
Auditor of Public Accounts

c: Members of the Board of Directors of KLC
Sylvia Lovely, Executive Director/CEO of KLC